

Message Text

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INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 AEC-11 DODE-00 FEAE-00 FPC-01 H-03 INT-08 L-03

NSC-07 PM-07 SAM-01 SCI-06 SS-20 STR-08 PA-04 PRS-01

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INFO AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: ENRG, OECD

SUBJECT: OECD ENERGY FORECASTING MEETING

1. LITTLE SPECIFIC DISAGREEMENT EXPRESSED WITH SECRETARIAT PAPERS ON SHORT, MEDIUM (1977-78) AND LONG (1980, 1985) TERM ENERGY DEMAND AND SUPPLY. HOWEVER, SEVERAL COUNTRIES--ESPECIALLY JAPAN, NETHERLANDS--SAID THEY BELIEVED SECRETARIAT TENDED TO UNDERESTIMATE DEMAND FOR IMPORTED OIL IN 1980 AND 1985.

2. LANTZKE (OECD) SUMMED UP 1980-85 PROJECTIONS AS INDICATING OECD OIL IMPORTS AT \$6 AND \$9 PER BARREL (1972 DOLLARS) WOULD BE SUBSTANTIALLY LOWER THAN PRE-OCTOBER FORECAST BECAUSE:

(A) HIGHER PRICES WILL REDUCE TOTAL ENERGY DEMAND--SECRETARIAT THOUGHT ITS ESTIMATES OF REDUCTION LOW

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AS THEY GENERALLY PREDICT LESS DEMAND REDUCTION THAN

LITERATURE AND FEW EXISTING INDIVIDUAL COUNTRY STUDIES
BUT SOME COUNTRY REPS CONSIDER REDUCTIONS HIGH;

(B) SOME SUBSTITUTION OF COAL AND GAS FOR OIL--EEC
COMMISSION THOUGHT OECD ESTIMATE OF SUBSTITUTION TOO
LOW BUT SOME COUNTRIES THOUGHT IT HIGH;

(C) INDIGENOUS OIL PRODUCTION WOULD BE UP.

3. US (BUSHNELL) POINTED OUT THAT REVISED OECD ESTI-
MATES MOVE AWAY FROM CONCEPT SIMPLE BASE CASE REFLECTING
MARKET REACTION TO HYPOTHESIZED PRICES BECAUSE US GAS
PRICE HELD AT ABOUT HALF OIL EQUIVALENT VALUE AND DIF-
FERING ESTIMATES FOR NORTH SEA PRODUCTION, WHICH DEPEND
ON TECHNICAL AND ENVIRONMENTAL FACTORS NOT PRICE, DETER-
MINE DIFFERENCES IN OECD EUROPE OIL SUPPLY BETWEEN \$6
AND \$9 NOT PRICE DIFFERENCE.

4. THERE GENERAL AGREEMENT OECD OIL IMPORTS WOULD BE
HIGHER IN 1977 AND 1978 THAN IN 1973 OR 1980 BECAUSE OF
DISCONTINUITY IN BRINGING IN NEW INDIGENOUS PRODUCTION.
AT REQUEST USDEL SECRETARIAT DID ANALYSIS SHOWING GREAT
SENSITIVITY OECD OIL IMPORT ESTIMATES TO GNP GROWTH
RATE. REDUCTION OECD GNP GROWTH RATE BY ONE-HALF PER-
CENT PER YEAR WOULD REDUCE ESTIMATED 1980 DEMAND BY MORE
THAN 10 PERCENT AND WOULD SUBSTANTIALLY REDUCE 1977-78
HUMP IN OIL IMPORTS.

5. US DEL STATED OECD SHORT TERM ESTIMATES AGREE IN
GENERAL WITH THOSE MADE BY US ALTHOUGH US GNP GROWTH
RATE EXPECTED TO BE HIGHER THAN MINUS HALF PERCENT ESTI-
MATED BY OECD. US DEL TOOK ISSUE WITH REPORT'S STATE-
MENT THAT INCREASED US COAL PRODUCTION UNLIKELY IN 1974.
UK DEL STATED THAT BRITISH OIL IMPORT ESTIMATES ARE SUB-
STANTIALLY ABOVE THOSE MADE BY OECD, MOSTLY BECAUSE HIGH
OIL IMPORTS BEING USED TO PERMIT REBUILDING COAL INVEN-
TORIES. JAPANESE TOOK ISSUE WITH OECD 1974 GNP GROWTH
RATE PROJECTION OF 1.4 PERCENT; GOJ EXPECTS RATE CLOSER

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TO 2.5 PERCENT. JAPANESE DEL ALSO NOTED THAT OIL IMPORTS FOR FIRST FOUR MONTHS 1974 ABOVE SAME PERIOD 1973, AND OIL STOCKS AGAIN CLOSE TO NORMAL LEVELS.

6. SUMMING UP SHORT TERM PROJECTIONS LANTZKE MADE FOLLOWING CONCLUSIONS:

(A) STOCK BUILDING BY MANY MEMBER COUNTRIES CONTINUES TO MASK ULTIMATE EFFECTS OF HIGHER PRICES ON IMPORT DEMAND

(B) SHORT TERM DEMAND REDUCTION HAS APPARENTLY BEEN SMALLER THAN ESTIMATED BY OECD IN SOME COUNTRIES SUCH AS FRG

(C) IMPACT OF INCREASED PRICE ON DEMAND VARIES MARK-
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EDLY AMONG OECD MEMBERS

(D) HEAVIER PRODUCTS HAVE BEEN MOST AFFECTED BY NEW DEMAND CONDITIONS; MOGAS DEMAND IS REBOUNDING WHILE IMPACT ON DISTILLATE HEATING OIL STILL DIFFICULT TO MEASURE BECAUSE OF MILD WINTER CONDITIONS.

7. SECRETARIAT REQUESTED ADDITIONAL DETAILED COMMENT ON SHORT TERM PAPER WITHIN 10 DAYS AND ON 1980-85 PAPER BY MID-JULY TO ASSIST SECRETARIAT IN REVISING SHORT TERM PAPER (BY JULY ECG MEETING) AND LONGER TERM WORK FOR LONG TERM ENERGY ASSESSMENT TO BE COMPLETED BY FALL. ONLY REQUIREMENT FOR US WOULD APPEAR BE ADDITIONAL DATA AND ANALYSIS ON COAL FOR 1980-85 PAPER.
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